

RBI Nominated Agencies: Time to Go?

To curtail the import of gold in past years, the Reserve Bank of India introduced the concept of Nominated Agencies that would be the channelizing agencies to import gold from overseas. Thus, the Nominated Agencies are the 'buying agents' through which the demand for gold is. With the aspiration of making India a global player in the international marketplace, perhaps it is now time to review this model and thus introduce pricing efficiencies on the gold that is imported into the nation.

It is common knowledge that the single biggest hurdle in promoting gold jewellery exports is the fact that the price of gold that is made available for exports is simply too high. This is simply due to the inefficiencies of procuring gold by banks, who are Nominated Agencies for importing gold, as has been prescribed by the RBI. Treasury heads of banks merely 'check-the-box' and import gold with a singular objective of ensuring that the process is transparent with no concern towards to the pricing of the same. However, it is now time to place the pricing of gold at the



This begs the questions, “How is the Government benefitting from having Nominated Agencies?” and “What would happen if the Nominated Agencies were discontinued, and anyone/everyone was permitted to import gold?” The answers to both questions, you may find, are deeply embedded in the fact that there is very little knowledge of the gold industry and that most policies for the gold industry have been formed around rhetoric and little understanding; this is no exception.”

same level of importance as the transparency of the process of purchase, so that gold is acquired at rates that are in sync with the international players. Take for example the status of the gold price today. While gold is available in India through banks,

(RBI Nominated Agencies), at a premium over the LBMA listed prices, gold in Dubai and other countries is available at a discount from the LBMA published rate. The fact of the matter is that when entrepreneurs are left to their devices to acquire raw material, (read: gold), they ensure pricing competitiveness, which is what the officials need to recognize and enable, as nobody is benefitting from the current method.

The simple answer to the first question is that the Government does NOT benefit in any manner whatsoever with the concept of the RBI Nominated Agencies. Juxtaposing the two options, it becomes glaringly apparent that this process warrants a change.

As mentioned earlier, the current procedure permits only the Nominated Agencies to import gold. Please note that they do so on behalf of the industry member that places the order of gold with them, as they do not have any use for gold themselves. Thus, the bullion merchant/importer approaches the Nominated Agency, (read: bank), and provides them with the requisite monies

to import gold on his behalf. The bank contacts its international supplier of gold and imports the gold based on the purchase contract that has been established years ago, (it is not a deal-to-deal pricing, which is why the gold is so expensive). Additional charges such as freight, insurance and premium on gold are also based on the negotiated rates of the past and as such, the importer, (bullion merchant), is the one to suffer the consequence of this poor-quality transaction.

If, suppose, the process of Nominated Agencies was dismantled, the process that would be introduced would be very similar to the current practice. That is to say that the bullion merchant/importer would contact the international supplier for import of gold and establish the rates payable towards freight, insurance and premium of gold directly. Obviously, as this is a free market transaction, the importer would purchase from the vendor that is cheapest. Once the rates have been confirmed, the bullion merchant/importer would provide the monies to the bank to pay for the gold, as per the terms of agreed between the two parties, (i.e. credit period etc. may come into play here and the payment would happen in accordance to the same). As can be seen, the role of the bank would be that of a payment gateway, with no further



Naysayers would claim the quality of gold imported could be compromised. But this is nothing but rhetorical, as the importer would ensure that the quality of raw material being imported is appropriate. Moreover, the fact that there is an import duty to be paid, would also ensure that any compromise in the quality of gold would result in a loss to the importer.”

involvement regarding the price etc.

It is important to note that in both methods of importing gold, (with or without the RBI Nominated Agencies), the bank plays the role for making the payment, which is really the only role that any bank should be confined to. Any exporter of gold jewellery would wholeheartedly agree that the current pricing of gold is detrimental to business. Moreover, in a business where the value addition is a meagre few percentage points, this would provide a huge impetus to the otherwise struggling gold jewellery export business and

bring in efficiencies of pricing on all gold imports for domestic use also. Of course, other benefits that are resultant of negotiating such as buyers' credit etc. would also help local businesses in acquiring their raw material: gold. A byproduct of removing this needless legislation would be the unleashing of the Indian entrepreneur in global gold markets. This would open opportunities that currently remain unrealized.

The current mechanism breeds inefficiencies and is creating a huge stumbling block for the gold industry of India to become an international marketplace. The Prime Minister has often spoken of unleashing India's economic potential. The time has now come to recognize that the Indian gold industry can also play a contributory role in the upliftment of the Indian economy. Dismantling this age-old concept of RBI Nominated Agencies would be a huge step in doing so. ■



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